

IPC US INCOME
COMMERCIAL REIT



Highlights of 2002

(all figures are in U.S. currency, unless otherwise noted)

ACQUISITIONS

- July 2002: 1650 Arch Street, a 27-storey Class A office building with 567,984 net rentable square feet in the Philadelphia, Pennsylvania CBD
- July 2002: McDonald Investment Center, a 23-storey Class A office building with 504,709 net rentable square feet in the Cleveland, Ohio CBD
- October 2002: Bank One Plaza, a 14-storey Class A office building with 235,694 net rentable square feet in the Lexington, Kentucky CBD

FINANCING

- January 2002: IPO over-allotment option exercised; an additional 1,145,000 units were issued for gross proceeds of \$7.3 million
- January 2002: Arranged a \$15 million acquisition line
- March 2002: Increased the \$15 million acquisition line to \$30 million
- June 2002: Increased the \$30 million acquisition line to \$50 million
- November 2002: Private placement of special warrants, exercisable into units of the REIT completed for gross proceeds of \$20.1 million
- December 2002: Equity offering of 2,500,000 units issued for gross proceeds of \$16.1 million
- December 2002: Paul Reichmann family invested \$7 million into IPC
- May to December 2002: Investors, as part of the distribution reinvestment plan reinvested nearly \$417,000 back into the REIT resulting in 64,852 units issued

DISTRIBUTIONS

- September 2002: Distributions increased by 7.9% from US60.7 cents per unit annualized to US65.5 cents per unit annualized
- November 2002: Distributions increased by 3.1% from US65.5 cents per unit annualized to US67.5 cents per unit annualized

FINANCIAL AND OPERATING

The REIT's net income was \$6.45 million or 38.8 cents per unit for the year, compared to the forecast of \$3.36 million or 21.7 cents per unit. The increase in income was primarily due to the three acquisitions made during the year and lower future tax expense.

Distributable income for the year was \$14.41 million or 86.7 cents per unit for the year. This was 22.3% higher than our forecast of \$11.79 million or 76.0 cents per unit.

(US\$000, except per unit amounts)	December 31, 2002	Prospectus Forecast *	December 31, 2001
Revenue	\$ 66,731	\$ 56,065	\$ 1,637
Net income	\$ 6,450	\$ 3,361	\$ 163
Net income per Unit	38.8 cents	21.7 cents	1.1 cents
Distributable income **	\$ 14,413	\$ 11,785	\$ 278
Distributable income per Unit	86.7 cents	76.0 cents	1.8 cents
Distributions per Unit, to Unitholders	62.7 cents	60.8 cents	2.0 cents

(Note: Actual distributions declared in 2002 were 64.7 cents of which 2.0 cents relates to the 12 days of operations in 2001)

* See Prospectus dated December 13, 2001 for detail. NOTE: the forecast assumed a 71.9% economic interest held in the Portfolio. However, with the issue of more units upon exercise of the Underwriter's over-allotment, the economic interest increased to 75%. With the November 2002 private placement and the December 2002 equity offering, the REIT's economic interest increased further to 77%. This annual report is based on the comparison to the original assumptions of a 71.9% economic interest.

** Distributable income is a non-GAAP measure and there is no standardized measure of distributable income. Therefore, distributable income may not be comparable to similar measures presented by other issuers.

To Our Unitholders

Since going public in December 2001, the REIT has acquired 1.8 million square feet of Class A office space (50% increase) and has increased distributions by 11%. The REIT is actively pursuing additional, accretive transactions.

I am pleased to submit IPC US Income Commercial Real Estate Investment Trust's ("IPC US REIT" or the "REIT") 2002 annual report. Note that all figures are stated in U.S. currency, unless otherwise noted.

Distributable income for the year was \$14.41 million (86.7 cents per unit) and was 22.3% higher than our prospectus forecast mainly as a result of the three acquisitions during the year. Distributable income for the 12 days of operation in 2001 from December 20 to December 31 was \$278,000 (1.8 cents per unit).

During the year, we acquired three Class A office towers, totalling over 1.3 million square feet:

- In July 2002, IPC (US), Inc. ("IPC") acquired an 89% partnership interest in 1650 Arch Street ("Arch Street"), a 587,000 square foot, 27-storey Class A office building in downtown Philadelphia, Pennsylvania. The purchase price for the property (100%) was \$71.5 million, financed by a new \$47.0 million (100%) ten-year, fixed-rate mortgage at 6.43%. IPC's equity investment of approximately \$23 million was funded by its acquisition line. The Arch Street building is 100% leased. The Environmental Protection Agency occupies 56% of the building, and Wolf Block, a major Philadelphia law firm, occupies 31% of the building. There are no significant lease rollovers before 2008.
- Also in July, IPC acquired the McDonald Investment Center, a 529,000 square foot, 23-storey Class A office building in downtown Cleveland, Ohio. The purchase price of \$45.5 million was financed by a new \$30 million, ten-year, fixed-rate mortgage at 6.38%. IPC's equity investment was funded by its acquisition line. The McDonald Investment Center is 94% leased. Key Bank and its subsidiary, McDonald Investments, occupy 70% of the building under leases expiring in 2006 and 2009, respectively. Calfee, Halter, Griswold, a major Cleveland law firm, occupies 21% of the building under a lease expiring in 2010.
- In October 2002, IPC acquired Bank One Plaza, a 235,000 square foot, 14-storey, Class A office building in Lexington, Kentucky. The purchase price of \$21.7 million was financed by assumption of a \$16.7 million fixed-rate mortgage at 8.3% maturing in 2009. IPC's equity investment was funded by its acquisition line. The building is 91% leased. Bank One, the fourth largest bank in the U.S., occupies approximately 170,000 square feet (72% of the building) under a lease expiring in 2009. McBrayer, McGinnis, a local law firm, occupies approximately 19,000 square feet (8%) until March 2012.

“This year, the REIT increased distributions by 11%. This was possible because of our team’s ability to find accretive acquisitions.”



We continued our growth into 2003 with another acquisition:

In March 2003, IPC acquired an 80% partnership interest in 11 Stanwix Street, a 429,000 square foot, 23-storey, Class A office building in Pittsburgh, Pennsylvania. The purchase price for the property (100%) was \$40 million, financed by assumption of a \$31.1 million (100%) fixed-rate mortgage at 7.99% maturing in 2011. IPC's equity investment was funded by its acquisition line. The building is 84% leased. IBM leases approximately 174,000 square feet (41% of the building) until 2009. Cohen Grigsby, a local law firm, leases approximately 63,000 square feet (15%) until 2008. CBS Corporation (Viacom) leases approximately 33,000 square feet. CBS recently extended their lease on approximately 20,000 square feet until 2008; the balance expires in 2005. The remainder is leased to a group of smaller tenants, including Xerox and Pittsburgh Telecom.

This transaction continued our accretive acquisition program and provides additional stability to the REIT due to the long-term nature of the leases and the creditworthiness of the tenants. The REIT's underwriting was based solely on the tenants in-place creating significant upside potential through additional leasing.

Recognizing the general concern with the state of the U.S. economy, we are focusing our acquisition efforts on properties with long-term creditworthy leases. The properties we have acquired meet this criteria and provide additional stability to the REIT. These acquisitions have increased the REIT's distributable income, and as a result, the Board of Trustees increased the REIT's distributions to Unitholders by 11% since the REIT's Initial Public Offering ("IPO") just over a year ago. Annual distributions have been increased from 60.8 cents per unit at IPO to 67.5 cents per unit currently.

In 2002, the REIT commenced a program of identifying partners to participate with the REIT in its acquisitions. This program will increase the REIT's income through asset management fees, property management fees, fees for arranging financing and, if appropriate, receiving carried interests. As a result, the acquisition of 1650 Arch Street in July 2002 and of 11 Stanwix Street in March 2003 was carried out together with partners.

The REIT has raised \$45.6 million of new equity since our IPO to repay acquisition financing and position ourselves for further growth.

- On November 1, 2002, a private placement of 2,971,112 special warrants was completed, raising \$20 million. The special warrants were issued at prices of US\$6.75 and Cdn\$10.55. Paul Reichmann family members purchased 600,000 of the special warrants (an investment of \$4.05 million). On January 31, 2003, these warrants were converted into 3,172,758 units of the REIT.
- On December 30, 2002, the REIT closed a public offering and raised \$16.1 million by issuing 2,500,000 units. At the same time, members of the Paul Reichmann family invested \$7.0 million directly in IPC Realty Limited. In January 2003, the underwriters exercised their over-allotment option and another 330,000 units were sold for \$2.1 million.

“The acquisitions are not only accretive but they provide additional stability to the REIT due to the long-term nature of the leases and the creditworthiness of the tenants.”



• Through the private placement, the equity offering and the subscription by the Paul Reichmann family, most of the amount borrowed under our \$50 million acquisition line to fund the equity of our acquisitions in 2002 was repaid. We are currently in the process of negotiating an increase in the acquisition line to \$75 million to increase our ability to transact quickly as opportunities arise.

In spite of increased competition for the type of asset which we are focusing on—well located properties with long-term leases to creditworthy tenants—we continue to find opportunities which will be accretive to the REIT and increase its stability. Although capitalization rates remain lower than they were at the beginning of the year, the low interest rate environment for long-term fixed-rate financing in the United States continues to boost the potential returns of the REIT.

Our Distribution Reinvestment Plan (the “DRIP”) has been well received by our Unitholders. The DRIP provides Canadian resident Unitholders with the option of reinvesting their total monthly cash distributions in additional units to steadily increase their ownership in the REIT, without incurring any commission or other transaction costs. We have included an incentive to participate—the DRIP entitles our Unitholders to receive additional units equal in value to 3% of the monthly distribution otherwise payable. The DRIP is administered by our transfer agent and registrar, CIBC Mellon Trust Company.

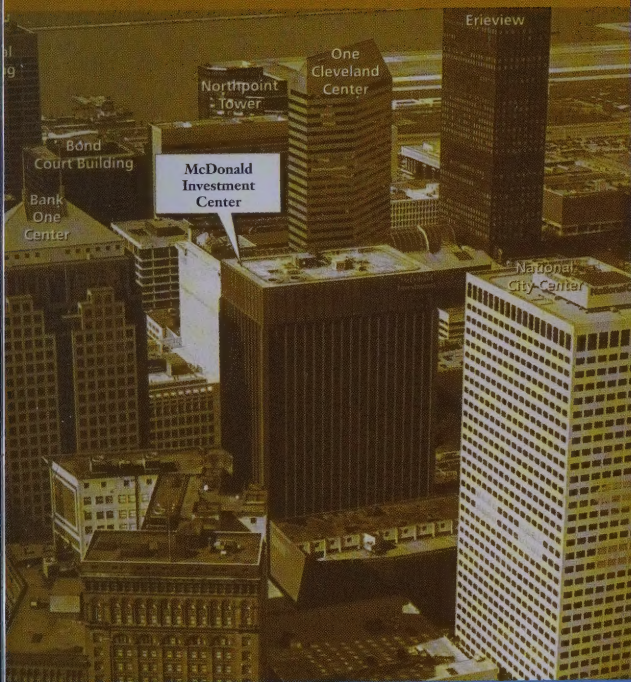
The REIT’s focus is, and will remain, the acquisition, management, leasing and redevelopment of office and retail properties in mid- to large-sized cities and strong suburban markets in the United States. The U.S. commercial real estate market contains approximately 7.3 billion square feet and is approximately ten times the size of the Canadian market. We continue to actively pursue acquisition opportunities to enhance the REIT’s stability of income and increase unitholder value.

On behalf of the Trustees and Management,

Vinay Kapoor
President and Chief Executive Officer

Toronto, Ontario
March 31, 2003

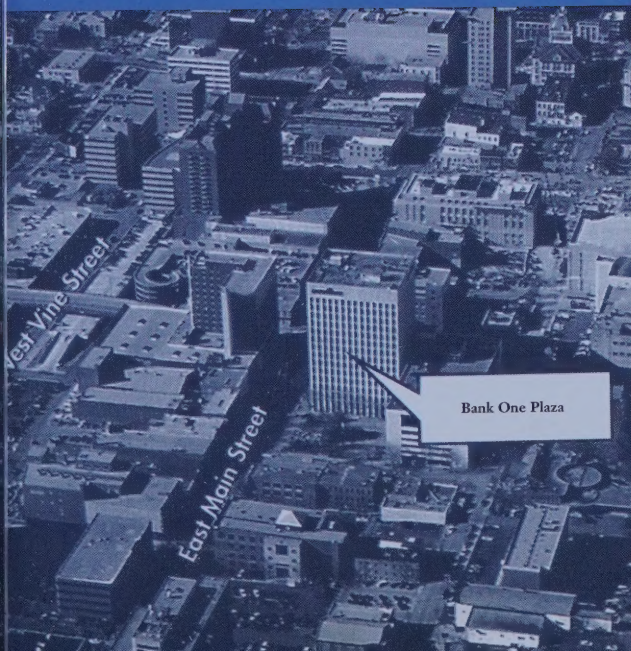
Cleveland, Ohio



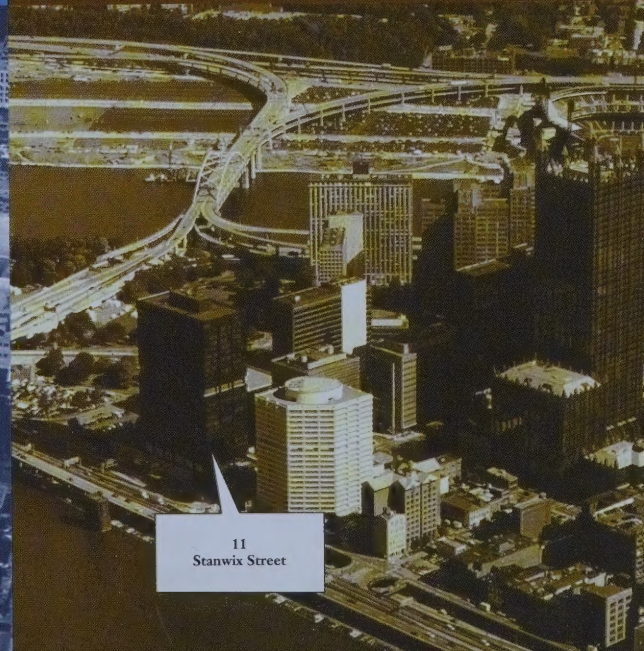
Philadelphia, Pennsylvania



Lexington, Kentucky



Pittsburgh, Pennsylvania



McDonald Investment Center



- Purchased on July 30, 2002 for \$45.5 million
- Financed by \$30 million, ten-year fixed-rate mortgage at 6.38%
- Class A 23-storey office building located in the Cleveland, Ohio CBD
- Return-on-equity estimated at 17.6%
- 504,709 net rentable square feet
- 94% leased to six tenants on long-term leases
- KeyCorp, rated A1 by Moody's and A- by Standard & Poor's, and McDonald Investments (a wholly owned subsidiary of KeyCorp) leases 34% and 36% of the building, expiring in 2006 and 2009 respectively
- Calfee, Halter, Griswold, a major Cleveland law firm, leases 21% of the building until 2010
- Building purchased at a cost significantly below its \$225 to \$250 per rentable square foot replacement cost
- The Cleveland CBD office market is experiencing the lowest vacancy rates in over ten years where over \$1.4 billion has been invested in projects designed to enhance the appeal of the Cleveland CBD (Jacob's Field, Gund Arena, Cleveland Browns Stadium, the Rock & Roll Hall of Fame and Museum, the Great Lakes Science Center, the Cleveland Federal Reserve Bank Annex, and an extension of Cleveland's light rail rapid transit system)

Bank One Plaza



- Purchased on October 4, 2002 for \$21.7 million
- Assumed a \$16.7 million, fixed-rate mortgage at 8.3% maturing in 2009
- Class A 14-storey office building located in the Lexington, Kentucky CBD
- Return-on-equity estimated at 13.5%
- 235,694 net rentable square feet with a separate 50 space parking lot
- 91% leased to a number of tenants on long-term leases
- Bank One, the fourth largest bank in the U.S., leases 72% of the building until 2009
- McBrayer, McGinnis, a local law firm, leases 8% of the building until 2012
- Building purchased at a cost significantly below its \$175 per square foot replacement cost
- The high visibility and premier location resulted in the City of Lexington's decision to place a bronze statue of a horse, that was donated by its sister city in China, directly in front of the building for permanent display

1650 Arch Street



- On July 23, 2002, purchased an 89% partnership interest in the building for \$71.5 million (100%)
- Financed by \$47 million (100%), ten-year fixed-rate mortgage at 6.43%
- Trophy Class A 27-storey office building in the Philadelphia, Pennsylvania CBD
- Return-on-equity estimated at 14.2%
- 567,984 net rentable square feet
- 100% leased to strong credit tenants on long-term leases with no significant rollovers before 2008
- Environmental Protection Agency leases 56% of the building until 2008 (excludes two five-year renewal options)
- Wolf, Block, a major Philadelphia law firm, leases 31% of the building until 2011
- Building purchased at approximately 50% of replacement cost, providing significant future upside potential
- The Philadelphia market provides strong barriers to entry with significant rental rate increases needed to justify new construction

11 Stanwix Street



- On March 28, 2003, purchased an 80% partnership interest in the building for \$40 million (100%)
- Assumed a \$31.1 million (100%), fixed-rate mortgage at 7.99% maturing in 2011
- Class A 23-storey office building located in the Pittsburgh, Pennsylvania CBD
- Return-on-equity estimated at over 15%
- 429,663 net rentable square feet
- 84% leased to tenants on long-term leases
- IBM Corporation leases 41% of the building until 2009
- Cohen & Grigsby, a local law firm, leases 15% of the building until 2008
- Viacom (CBS) Corporation, recently extending their lease, leases 12% of the building until 2008
- Building purchased at a cost well below its replacement cost
- Pittsburgh is undergoing a major redevelopment with approximately \$1.7 billion of new development projects recently completed or currently under construction

Locations



Properties

The REIT's Properties are owned by IPC through subsidiaries and consist of high quality, multi-tenant, income producing properties that are strategically situated to provide convenient access and visibility within their markets. Each of the Properties is located in the heart of a Central Business District or in a desirable suburban market.

At December 31, 2002, IPC owned and managed 4.7 million square feet in 26 properties, consisting of 20 office buildings/complexes and six retail centers (the "Portfolio" or "Properties") located in Kentucky, Kansas, Pennsylvania, Ohio, Massachusetts, New York, New Hampshire and New Jersey. The Portfolio is well diversified in its tenant base as no single tenant leases more than 8.3% of the Portfolio. Only 6.5% of the Portfolio is expiring in 2003, with 15.3% expiring in 2004. In 2004, the lease expiries are high as a result of the expiration of leases with three tenants: Kohl's Department Store, Sony U.S.A., Inc. and Fallon Community Health Plan, Inc. Based on recent investments made by each of these tenants in its respective leased premises, utilization by each of these tenants of its respective space and discussions with property managers, IPC expects each of these tenants to renew its respective lease.

The following table sets forth certain information as of December 31, 2002 with respect to the Properties (the 11 Stanwix Street property acquired in March 2003 is included in the table):

Property	Net Rentable Square Feet	Percent Leased	Annualized Rental Income ⁽¹⁾	Percent of Portfolio Annualized Rental Income
OFFICE PROPERTIES:				
Louisville, KY				
Hurstbourne Forum Office Park ⁽²⁾	328,368	96.9%	\$ 5,343,538	6.4%
Hurstbourne Place ⁽²⁾	232,790	90.3	4,169,070	5.0
Hurstbourne Park ⁽²⁾	104,237	98.8	1,716,393	2.0
One Oxmoor Place ⁽²⁾⁽³⁾	136,809	92.0	2,576,377	3.1
Executive Park ⁽³⁾	109,389	77.6	1,251,846	1.5
Lakeview ⁽²⁾	76,999	88.6	1,261,727	1.5
Steeplechase Place	76,666	81.6	1,093,854	1.3
Hunnington I	61,862	84.0	848,398	1.0
Lexington, KY				
Bank One Plaza	235,694	90.1	3,130,785	3.7
Wichita, KS				
Epic Center ⁽²⁾	288,985	91.5	4,126,604	4.9
One Brittany Place	57,670	96.3	824,860	1.0
Two Brittany Place	57,559	76.9	661,309	0.8
Philadelphia, PA				
1650 Arch Street ⁽⁴⁾	567,984	99.5	11,828,491	14.1
Pittsburgh, PA				
11 Stanwix Street ⁽⁵⁾	429,663	83.7	6,934,496	8.2
Cleveland, OH				
McDonald Investment Center	504,709	95.9	8,273,973	9.8
Manchester, NH				
City Hall Plaza	209,893	96.2	4,710,750	5.6

Property	Net Rentable Square Feet	Percent Leased	Annualized Rental Income ⁽¹⁾	Percent of Portfolio Annualized Rental Income
OFFICE PROPERTIES:				
Staten Island, NY				
One Edgewater Plaza	255,880	96.8	4,831,471	5.7
White Plains, NY				
222 Bloomingdale Road ⁽²⁾⁽³⁾	140,684	92.4	3,493,361	4.1
Woodcliff Lake, NJ				
Sony Building	123,000	100.0	2,091,000	2.5
Worcester, MA				
One Chestnut Place	182,492	99.0	3,727,876	4.4
Two Chestnut Place	34,844	79.2	443,031	0.5
Subtotal for Office Properties	4,216,177	93.0%	\$ 73,339,210	87.1%
RETAIL PROPERTIES:				
Louisville, KY				
Hurstbourne Forum Shopping Center ⁽⁴⁾	134,963	93.3%	2,140,944	2.5%
Hurstbourne Plaza Shopping Center ⁽⁴⁾	113,278	88.5	1,377,726	1.6
Wichita, KS				
Brittany Retail Center	214,772	87.5	1,439,249	1.7
Normandie Village Shopping Center	91,306	97.3	1,081,400	1.3
Comotara Center	55,488	100.0	711,263	0.9
East Walpole, MA				
Walpole Mall	281,999	98.0	4,124,653	4.9
Subtotal for Retail Properties	891,806	93.6%	\$ 10,875,235	12.9%
Total for All Properties	5,107,983	93.1%	\$ 84,214,445	100.0%

⁽¹⁾ Includes base rent, recoveries of operating expenses and taxes, and other amounts payable as rent such as amounts in respect of storage and parking.

⁽²⁾ Space in this property was effectively leased by PRF Properties, Inc. pursuant to the PRF Lease Arrangements described in Note 9 to the financial statements under — “PRF Lease Arrangements.” The applicable percent leased rate includes space subject to the PRF Lease Arrangements.

⁽³⁾ Subject to land leases expiring in 2063 (One Oxmoor Place), 2067 (Executive Park) and 2083 (Bloomingdale Road).

⁽⁴⁾ Ownership in the 1650 Arch Street property is an 89% partnership interest.

⁽⁵⁾ Ownership in the 11 Stanwix Street property is an 80% partnership interest. This property was acquired in March 2003

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Management's Discussion and Analysis of Financial Condition and Results of Operations

(All figures are in U.S. currency, unless otherwise noted)

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements relating to the REIT's operations and the environment in which it operates that are based on the REIT's expectations, estimates, forecast and projections. These statements are not guarantees of future performance and involve risks and uncertainties expressed in those forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. The REIT undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.

CORPORATE OVERVIEW

IPC US Income Commercial REIT (the "REIT") is Canada's only REIT investing exclusively in U.S. properties. The REIT is a growth-oriented investment trust focused on acquiring accretive properties in order to grow distributable income and Unitholder value. The REIT, together with members of the Paul Reichmann family owns IPC (US), Inc. ("IPC"). With the four acquisitions to date, IPC now owns and manages 5.1 million square feet in 27 properties, consisting of 21 office buildings/complexes and six retail centres (the "Portfolio" or the "Properties").

Through the REIT, Canadian investors can invest in U.S. commercial property with the tax deferral benefits of a Canadian REIT (currently, at least 75% of the REIT's distributions each year are tax deferred and the balance are entitled to the dividend tax credit) and also provides the flexibility of investing and receiving distributions in either Canadian or U.S. dollars. The units are eligible for RRSPs and registered pension funds and are not deemed to be foreign property.

PROPERTY PROFILES

The REIT's Properties are owned by IPC through subsidiaries and consist of high quality, multi-tenant, income producing properties that are strategically situated to provide convenient access and visibility within their markets. Each of the Properties is located in the heart of a Central Business District ("CBD") or in a desirable suburban market of Kentucky, Pennsylvania, Kansas, New York, Massachusetts, Ohio, New Hampshire and New Jersey. The Portfolio is well diversified in its tenant base as no single tenant leases more than 8.3% of the Portfolio with the largest tenant being government agencies. Only 5.2% of the leases expire in the final three quarters of 2003, with 15.3% expiring in 2004. In 2004, the lease expiries are high as a result of the expiration of leases with three tenants: Kohl's Department Store, Sony U.S.A., Inc. and Fallon Community Health Plan, Inc. Based on recent leasehold investments made by each of these tenants in its respective leased premises, the utilization by and discussion with each of these tenants and discussions with property managers, IPC expects each of these leases to be renewed.

Acquisitions

Recognizing the general concern with the state of the U.S. economy, the REIT is focusing its acquisition efforts on properties with long-term creditworthy leases. The properties we have acquired to date meet this criteria and provide additional stability to the REIT. These acquisitions have increased the REIT's distributable income, and as a result, the Board of Trustees increased the REIT's distributions to Unitholders by 11% since the REIT's Initial Public Offering ("IPO") just over a year ago. Annual distributions have been increased from 60.8 cents per unit at IPO to 67.5 cents per unit currently.

Since the IPO, the REIT acquired the following properties:

- July 2002: 1650 Arch Street, a 27-storey Class A office building with 567,984 net rentable square feet in the Philadelphia, Pennsylvania CBD
- July 2002: McDonald Investment Center, a 23-storey Class A office building with 504,709 net rentable square feet in the Cleveland, Ohio CBD
- October 2002: Bank One Plaza, a 14-storey Class A office building with 235,694 net rentable square feet in the Lexington, Kentucky CBD
- March 2003: 11 Stanwix Street, a 23-storey Class A office building with 429,663 net rentable square feet in the Pittsburgh, Pennsylvania CBD

These transactions began our accretive acquisition program and have provided additional stability to the REIT due to the long-term nature of the leases and the creditworthiness of the tenants. The REIT's underwriting was based solely on the tenants in-place creating significant upside potential through additional leasing.

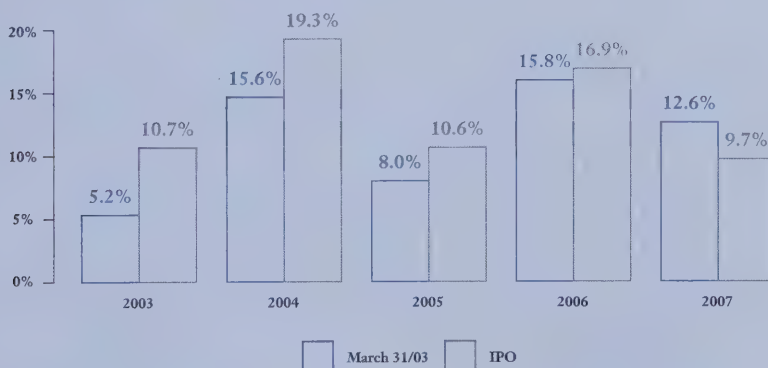
The following is a summary of the Properties as of December 31, 2002 (including the 11 Stanwix Street property acquired in March 2003):

	Net Rentable Square Feet	Percent Leased	Annualized Rental Income ⁽¹⁾	Percent of Portfolio Annualized Rental Income
Office Properties	4,216,177	93.0%	\$ 73,339,210	87.1%
Retail Properties	891,806	93.6%	\$ 10,875,235	12.9%
Total	5,107,983	93.1%	\$ 84,214,445	100.0%

⁽¹⁾ Includes base rent, recoveries of operating expenses and taxes, and other amounts payable as rent such as amounts in respect of storage and parking.

Lease Maturities

Lease maturities of the Portfolio (including the 11 Stanwix Street property acquired in March 2003) have improved since the IPO in December 2001:

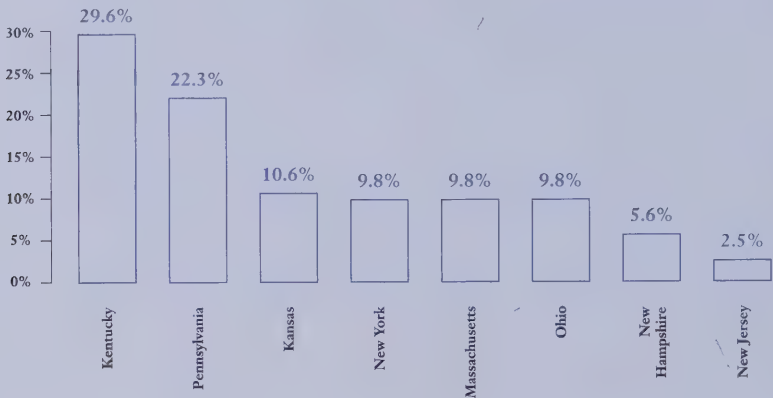


Lease maturities in 2008 and later for the Portfolio are 43% compared to 18% at IPO. As at December 31, 2002 (including 11 Stanwix Street acquired in March 2003), the weighted average term of the leases of the Properties is 9.3 years and the weighted average of the remaining term is 4.8 years. It is expected that roll-over of the leases will be beneficial to the REIT, as many of the lease rates currently in place are below current market rents.

In 2002, 80% of the leases of the Properties were renewed on expiry. For the year, 234,435 square feet of leased space expired at an average rate of \$13.57 per square foot of which 170,800 square feet was renewed at \$14.55 per square foot and 50,070 was renewed early at \$17.48 per square foot. Further, an additional 7,547 square feet was retained in temporary leases. During the same period, 131,884 square feet of new space was leased at an average rate of \$13.50 per square foot. At December 31, 2002, the overall Portfolio had an average rental rate of \$15.95 per square foot and an average market rental rate of \$18.00 per square foot. The office segment had an average rental rate of \$17.54 per square foot and an average market rental rate of \$19.23 per square foot. The retail segment had an average rental rate of \$9.47 per square foot and an average market rental rate \$12.63 per square foot.

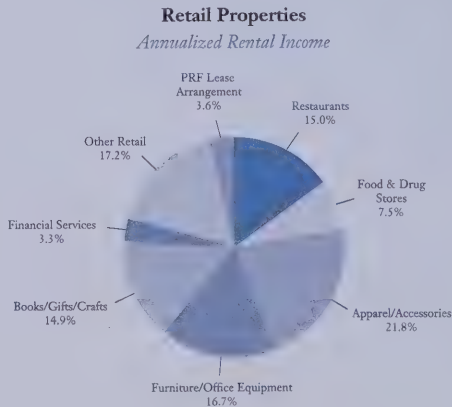
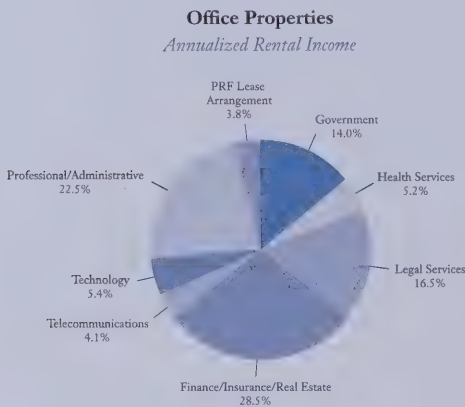
Geographic Distribution

Currently, the portfolio distribution across the United States based on annualized rental income is as follows (including the 11 Stanwix Street property acquired in March 2003):



Tenant Mix

The following charts show the tenant mix for the Properties (including the 11 Stanwix Street property acquired in March 2003) on the basis of annualized rental income. As shown in the charts, the Properties have a balanced mix of tenants.



FINANCIAL RESULTS

Net income and distributable income analysis

Quarterly Information

(US\$000, except per unit amounts)	First Quarter, 2002	Second Quarter, 2002	Third Quarter, 2002	Fourth Quarter, 2002	Year Ended, December 31, 2002
Rental Revenues	\$ 13,463	\$ 14,027	\$ 18,144	\$ 21,097	\$ 66,731
Net Property Income	8,403	8,866	11,012	12,434	40,715
Net Income	1,370	1,726	1,589	1,765	6,450
Distributable Income	2,873	3,350	3,866	4,324	14,413
Net Income/Unit – Basic	8.3 cents	10.4 cents	9.5 cents	10.6 cents	38.8 cents
Net Income/Unit – Fully Diluted	8.3 cents	10.3 cents	9.5 cents	10.6 cents	38.7 cents
Distributable Income/Unit – Basic	17.4 cents	20.1 cents	23.2 cents	26.0 cents	86.7 cents
Distributable Income/Unit – Fully Diluted	17.4 cents	20.0 cents	23.1 cents	25.9 cents	86.4 cents

Annual Information

(US\$000, except per unit amounts)	December 31, 2002	Prospectus Forecast*	December 31, 2001
Rental revenues	\$ 66,731	\$ 56,065	\$ 1,637
Operating costs	26,016	21,857	697
Net property income	40,715	34,208	940
General and administrative expense	1,446	1,326	43
Interest expense	19,578	16,332	535
Interest and other income	(283)	(262)	(32)
Depreciation and amortization	4,528	3,329	105
	25,269	20,725	651
Income before the undernoted	15,446	13,483	289
Future income tax expense	4,252	5,516	18
Income before non-controlling interest	11,194	7,967	271
Non-controlling interest	4,744	4,606	108
Net income	6,450	3,361	163
Add:			
Depreciation and amortization	3,711	2,908	97
Future income tax expense	4,252	5,516	18
Distributable income	\$ 14,413	\$ 11,785	\$ 278

* See Prospectus dated December 13, 2001 for details. NOTE: the forecast assumed a 71.9% economic interest held in the Portfolio. However, with the issue of more units upon exercise of the Underwriter's over-allotment, the economic interest increased to 75%. With the November 2002 private placement and the December 2002 equity offering, the REIT's economic interest increased further to 77%. This annual report is based on the comparison to the original assumptions of a 71.9% economic interest. Forecast was reclassified to conform with the financial statement presentation.

The only significant variations from forecast in the financial results for 2002 were due to the acquisition of the three new properties and their impact on operations. The long-term nature of the leases and debt adds stability as results tend to be consistent and predictable.

Net property income

(US\$000)	December 31, 2002	Prospectus Forecast	December 31, 2001
Rental revenues	\$ 66,731	\$ 56,065	\$ 1,637
Operating costs	26,016	21,857	697
Net property income	\$ 40,715	\$ 34,208	\$ 940

Net property income for the REIT was \$40.7 million for the year, compared to the forecast of \$34.2 million. Net property income was \$940,000 for the 12 days of operation in 2001 from December 20, 2001 to December 31, 2001 ("2001"). Net property income was 19.0% higher than forecast. The increase was mainly the result of the new acquisitions in the year. Net property income attributable to the new acquisitions during the year was \$6.4 million and from the original portfolio was \$34.3 million compared to the prospectus forecast of \$34.2 million. Excluding acquisitions, net property income was slightly above forecast mainly the result of the office portfolio performing above expectations.

Interest expense

Interest expense was \$19.6 million during the year compared to \$535,000 in 2001. Interest expense was higher than the forecast of \$16.3 million because of \$93.7 million of additional mortgages for the three acquisitions during the year. Most of the interest expense consists of interest on secured mortgages on the Properties. The weighted-average interest rate on the mortgages is 7.1%, a slight improvement over 7.2% in 2001. Interest of \$889,000 relates to the acquisition line used to fund the equity investments in the properties acquired during the year.

Net income

Net income for the year was \$6.5 million compared to \$163,000 in 2001. This translates into 38.8 cents per basic unit and 38.7 cents per fully diluted unit in 2002 and 1.1 cents per basic and fully diluted unit in 2001. Net income was 92% higher than the forecast of \$3.4 million. The main causes of the increase were the acquisitions made during the year and because of lower future income tax expense which was \$1.3 million less than forecast. Net income attributable to the new acquisitions in the year was \$1.4 million and from the original portfolio was \$5.1 million compared to the prospectus forecast of \$3.4 million. Even after taking into consideration acquisitions and lower future income tax expense, the REIT's net income was \$400,000 higher than forecast.

Distributable income

Distributable income is not a Canadian Generally Accepted Accounting Principles ("GAAP") measure and there is no standardized measure of distributable income. Distributable income represents net income of the REIT and its consolidated subsidiaries, as determined in accordance with GAAP subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization (excluding amortization of leasing costs) and future income tax expense.

Distributable income for the year was \$14.4 million compared to \$278,000 in 2001. This translates to 86.7 cents per basic unit and 86.4 cents per fully diluted unit in 2002 and 1.8 cents per basic and fully diluted unit in 2001. Distributable income was 22.3% higher than the forecast of \$11.8 million. This increase was the result of the acquisitions made during the year. Distributable income attributable to the new acquisitions was \$2.7 million and from the original portfolio was \$11.7 million compared to the prospectus forecast of \$11.8 million.

Distributions to Unitholders

Distributions to Unitholders during the year was \$10.9 million versus forecast of \$9.4 million as a result of increased distributions per unit and more units outstanding. This represents 62.7 cents per unit. These distributions represent a 9.8% yield to IPO investors. Distributions were increased twice during the year. The last increase in distributions to 67.5 cents per unit on an annualized basis beginning with the December 2002 payment represents a 10.5% yield to IPO investors. There were no distributions paid in 2001 as the distributions for the 12 days in 2001 were paid in February 2002.

Debt

Mortgage debt at December 31, 2002 was \$311.0 million. Three new mortgages totalling \$93.7 million were incurred in the year relating to the three acquisitions with a weighted-average rate of 6.75% and a weighted-term of 9.5 years. These new mortgages are consistent with our strategy of matching long-term leases with long-term debt. The long-term acquisition line was used in the year to fund the equity required for these buildings. Consolidated indebtedness was 57.8% at December 31, 2002 versus 55.8% at December 31, 2001, a significant reduction from 64.5% at September 30, 2002 as a result of paying down the acquisition line. Proceeds of the over-allotment exercised by the Underwriters in January 2003 were used to further pay down the acquisition line and reduce consolidated indebtedness to 57.4%. This is well below the 70% leverage limits and below the REIT's business plan of 60% to 65%.

Only 7.3% of the debt is repayable in the next five years:

(Amounts are in US\$000)

2003	2004	2005	2006	2007	Afterwards	Total
\$3,904	4,131	4,503	4,839	5,200	288,388	\$310,965
1.3%	1.3%	1.4%	1.6%	1.7%	92.7%	100.0%

Equity

The REIT has raised \$45.6 million of new equity since our IPO to repay acquisition financing and position ourself for further growth.

On November 1, 2002, a private placement of 2,971,112 special warrants was completed, raising \$20.1 million. The special warrants were issued at prices of US\$6.75 and Cdn\$10.55. Paul Reichmann family members purchased 600,000 of the special warrants (an investment of \$4.1 million). On January 31, 2003, these warrants were converted into 3,172,758 units of the REIT.

On December 30, 2002, the REIT closed a public offering and raised \$16.1 million by issuing 2,500,000 units. At the same time, members of the Paul Reichmann family invested \$7.0 million directly in IPC Realty Limited. In January 2003, the underwriters exercised their over-allotment option and another 330,000 units were sold for \$2.1 million.

Liquidity and capital expenditures

Funds from operations during the year amounted to \$19.6 million compared to \$394,000 in 2001. On December 31, 2002, the REIT had a cash balance of \$26.4 million compared to \$19.4 million in 2001. Of this, unrestricted cash was \$12.9 million versus \$10.2 million in 2001. Excluding the acquisitions made in the year, the REIT spent \$1.8 million on capital expenditures, which was less than that budgeted, and \$2.8 million on tenant inducements and leasing costs for the year. This includes \$1.5 million of identified capital expenditures and leasing costs for which cash was left on deposit at the time of the IPO. This leaves just over \$500,000 of identified capital expenditures and leasing costs for which cash was left on deposit at the time of the IPO.

The REIT has a \$50 million long-term bank line for acquisitions, working capital and other general purposes. This was increased from \$30 million at June 30, 2002. An increase to \$75 million is currently being negotiated. At December 31, 2002, \$7.3 million was drawn on this acquisition line. This current line is sufficient to meet ongoing operations and capital expenditures and is intended mainly to finance acquisitions.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the REIT, including the following:

Property ownership risk

The REIT, through its interest in IPC, indirectly owns real property. All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, supply and demand for leased premises and various other factors.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulties and be unable to fulfill their lease commitments. The REIT mitigates the risk of credit loss by reviewing each prospective tenant's credit history before signing new leases and conducting regular reviews of its existing tenants' credit performance.

Interest rate risk

The REIT's exposure to interest rate risk relates to its long-term mortgages which bears fixed rates and are due between 2008 to 2012. The REIT mitigates the interest rate risk by limiting its debt-to-assets ratio to 70%, and attempting to match the timing of the renewal of significant tenant leases to the time at which mortgage indebtedness for the respective Properties becomes due for refinancing.

Lease rollover risk

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The REIT mitigates this risk by entering into long-term leases with creditworthy tenants.

Land leases

The REIT's exposure to land leases relates to an interest on property located on leased land. The land leases are subject to periodic rate resets which may fluctuate and may result in significant rental rate adjustments. Management mitigates this risk by limiting the use of land leases for its properties.

Environmental matters

As an owner of interests in real property in the United States, the REIT is subject to various United States federal, state and municipal laws relating to environmental matters. Such laws provide that the REIT or its Subsidiaries could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, the REIT is not aware of any material non-compliance with environmental laws at any of the Properties. The REIT is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Properties or any pending or threatened claims relating to environmental conditions at the Properties. To mitigate the environmental risk, it is the REIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property and to obtain Phase II environmental assessments where recommended in the Phase I environmental assessment.

OUTLOOK

The fundamentals of the REIT's Portfolio are stable despite the current economic environment. Recognizing this concern for the U.S. economy, the REIT will continue to reduce its risk by extending its lease-rollover and adding further stability to the Portfolio. By focusing its acquisition efforts on quality properties in good markets with long-term leases and by concentrating on credit quality tenants, cash flow stability is achieved. At the same time, the REIT will also seek accretive acquisitions with a view to growing distributable income and Unitholder value. By locating in and near markets where the REIT currently exists, allows it to leverage off its existing management to achieve economies of scale. However, should opportunities exist outside of these markets that could add stability without increasing proportionate costs, the REIT will look at such opportunities with a view to diversifying its Portfolio, limiting its risks further. The REIT will also leverage its management capabilities by bringing in other partners that helps to reduce risks and increases returns from management and other fees. The REIT's acquisition focus will be on office properties as that is the area of management's greatest expertise. The REIT's four acquisitions to date have lengthened the lease maturity profile, increased portfolio diversification, and added stability allowing for increases in distributions by 11% since the IPO. Also, the low interest rate environment for long-term fixed-rate financing will help the REIT to make accretive acquisitions.

Leasing activity in general is slow as a result of the slower U.S. economy; however, as noted in April 2003 by the Chairman of the U.S. Federal Reserve, Alan Greenspan, the U.S. economy is positioned to expand at a noticeably better pace than it has during the past year.

The balance of supply and demand in the office market continues to remain in check with little or no new development activity in most of the markets that the REIT is in.

The REIT has only 5.2%, or over 240,000 square feet expiring in the rest of 2003. Given that historically, over three quarters of its tenants renew and that most of the expiring leases are at below market rental rates, the REIT is confident that its lease profile will remain the same, or be better.

Finally, the REIT is confident that it will be able to maintain its target payout ratio on distributable income of approximately 80% going forward.

Management's Responsibility for Financial Information

Management of the REIT is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and certain industry-specific accounting principles. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibility for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the REIT recognizes that the relative costs of maintaining these controls should not exceed their expected benefits. Management further ensures the equity of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Trustees discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed of Trustees who are independent from management of the REIT. This Committee meets with management and with the REIT's independent auditors to discuss audit, internal control, accounting policies and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Trustees.

The consolidated financial statements have been audited by Deloitte & Touche LLP and their report is presented herein.



Vinay Kapoor
President and Chief Executive Officer

Toronto, Ontario
March 31, 2003



Gary Goodman
Executive Vice President and Chief Financial Officer

To the Unitholders of IPC US Income Commercial Real Estate Investment Trust

We have audited the consolidated balance sheets of IPC US Income Commercial Real Estate Investment Trust (the "REIT") as at December 31, 2002 and 2001 and the consolidated statements of income, unitholders' equity and cash flows for the year ended December 31, 2002 and for the period from the date of commencement of operations, December 20, 2001 to December 31, 2001. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the year ended December 31, 2002 and for the period from December 20, 2001 to December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Deloitte, Touche LLP

Chartered Accountants

Toronto, Ontario

March 14, 2003

Consolidated Balance Sheets

(all amounts in thousands of U.S. dollars)

	December 31, 2002	December 31, 2001
ASSETS		
Rental properties (Note 4)	\$ 484,235	\$ 342,080
Cash and cash equivalents	12,904	10,166
Restricted cash	13,516	9,231
Accounts receivable	3,410	1,901
Future income tax asset (Note 8)	12,845	10,283
Prepaid expenses and other assets (Note 5)	2,968	1,297
	\$ 529,878	\$ 374,958
LIABILITIES		
Long-term fixed-rate debt (Note 6)	\$ 310,965	\$ 220,317
Long-term acquisition facility (Note 7)	7,309	—
Accounts payable and accrued liabilities	13,005	7,850
Distributions payable	1,187	—
Future income tax liability (Note 8)	21,962	15,148
	354,428	243,315
Commitments and contingencies (Note 13)		
Non-controlling interests (Note 12)	47,553	40,221
UNITHOLDERS' EQUITY (Note 11)		
Unitholders' equity	108,820	91,363
Special warrants	19,303	—
Cumulative translation (loss) gain	(226)	59
	127,897	91,422
	\$ 529,878	\$ 374,958

The accompanying notes are an integral part of the financial statements.

Approved by the Trustees

Donald S. Macdonald

Donald S. Macdonald
Trustee

Aladin Mawani

Aladin Mawani
Trustee

Consolidated Statements of Income

(all amounts in thousands of U.S. dollars except per unit amounts)

	For the year ended December 31, 2002	For the period from December 20, 2001 to December 31, 2001
Rental revenues (Note 9)	\$ 66,731	\$ 1,637
Operating costs	26,016	697
Net property income	40,715	940
Interest expense	19,578	535
Interest and other income	(283)	(32)
General and administrative expense (Note 10)	1,446	43
Depreciation and amortization	4,528	105
	25,269	651
Income before income taxes and non-controlling interest	15,446	289
Future income tax expense (Note 8)	4,252	18
Income before non-controlling interest	11,194	271
Non-controlling interest (Note 12)	4,744	108
Net income	\$ 6,450	\$ 163
Basic and diluted net income per unit (Note 14)	\$ 0.39	\$ 0.01

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Unitholders' Equity

(all amounts in thousands of U.S. dollars)

	For the year ended December 31, 2002	For the period from December 20, 2001 to December 31, 2001
UNITHOLDERS' EQUITY, BEGINNING OF PERIOD	\$ 91,363	\$ —
CHANGES DURING THE PERIOD		
Net income	6,450	163
Distributions to unitholders	(10,926)	—
Distributions reinvested	417	—
Units issued	23,453	99,200
Issue costs	(1,937)	(8,000)
UNITHOLDERS' EQUITY, END OF PERIOD	\$ 108,820	\$ 91,363

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

(all amounts in thousands of U.S. dollars)

	For the year ended December 31, 2002	For the period from December 20, 2001 to December 31, 2001
NET INFLOW (OUTFLOW) RELATED TO THE FOLLOWING ACTIVITIES		
Operating		
Net income	\$ 6,450	\$ 163
Items not affecting cash		
Depreciation and amortization	4,176	105
Future income taxes	4,252	18
Non-controlling interest	4,744	108
Funds from operations	19,622	394
Changes in non-cash working capital operating items	2,785	(188)
Leasing costs	(2,384)	(955)
Leasing costs related to pre-REIT commitments (Note 4)	(927)	—
Deferred financing costs	(1,096)	—
Amortization of deferred financing costs	352	—
	18,352	(749)
Investing		
Acquisition of assets in initial public offering (net of debt assumed)	—	(91,200)
Building acquisitions (net of debt assumed)	(123,850)	—
Building improvements	(1,768)	—
Building improvements related to pre-REIT commitments (Note 4)	(526)	—
Other assets	(272)	—
Changes in restricted cash	(4,285)	(178)
	(130,701)	(91,378)
Financing		
Proceeds of initial public offering of units (net of issue costs)	6,961	91,200
Proceeds of special warrants (net of issue costs and return of capital)	19,471	—
Public offering of units (net of issue costs)	14,555	—
Repayment of 2008 debentures (over-allotment option)	(3,961)	—
Proceeds of long-term debt	77,000	—
Repayment of long-term debt	(3,022)	—
Long-term acquisition facility	7,309	—
Distributions to unitholders, net of distribution payable and DRIP	(9,489)	—
Retained from (paid to) non-controlling interest	6,549	(95)
	115,373	91,105
Effect of exchange rate changes on cash	(286)	59
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,738	(963)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	10,166	11,129
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 12,904	\$ 10,166
Supplemental cash flow information		
Cash interest paid	\$ 19,178	\$ 95
Cash income taxes paid	\$ 36	\$ —

The accompanying notes are an integral part of the financial statements.

1. THE REIT

IPC US Income Commercial Real Estate Investment Trust (the "REIT") is an open-end real estate investment trust that was created pursuant to the Declaration of Trust dated November 8, 2001. The REIT was established under the laws of the Province of Ontario, and began operations on December 20, 2001. The REIT invests in commercial and retail properties in the United States.

2. SIGNIFICANT ACCOUNTING POLICIES

The REIT's accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants and are substantially in accordance with recommendations of the Canadian Institute of Public and Private Real Estate Companies. The more significant of these policies are described below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries.

(b) Restricted cash

Restricted cash consists primarily of deposits required under the terms of the fixed-rate debt for property taxes, future expected tenant improvements and to fund future expected capital expenditures and repairs.

(c) Rental properties

Rental properties are stated at the lower of cost less accumulated depreciation and amortization and net recoverable amount. Cost includes the original cost of the property, due diligence costs and other direct acquisition-related costs. Net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual worth of the properties.

(d) Depreciation and amortization

Depreciation and amortization has been reflected in the accounts, at the following rates:

Buildings and improvements	– 40 years 5% sinking fund
Leasehold properties	– 40 years 5% sinking fund
Furniture and equipment	– straight-line over five- to seven-years

(e) Deferred costs

Leasing costs, including tenant improvements, inducements and leasing commissions, are deferred and amortized on a straight-line basis over the term of the respective leases. The unamortized balance of leasing costs is included in rental properties.

Financing costs are amortized on a straight-line basis over the terms of the debt to which they relate. The unamortized balance of financing costs are included in prepaid expenses and other assets.

(f) Revenue recognition

Rents are recognized on a straight-line basis over the terms of the related agreements. Percentage rents are recognized when earned. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the applicable costs are incurred.

(g) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Reporting currencies and foreign currency translation

The consolidated financial statements have been presented in U.S. dollars as the REIT's principal investments and cash flows are influenced by the U.S. dollar. Assets and liabilities denominated in other currencies are translated into U.S. dollars at the rate in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate in effect for the period presented. The REIT's head office operations in Canada are self-sustaining in nature and, as such, cumulative gains and losses arising from the consolidation of the assets and liabilities of these operations are recorded as a separate component of equity.

(i) Income taxes

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values.

Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(j) Unit option plan

The REIT has a Unit Option Plan ("the Plan") as described in Note 11 (d). Effective January 1, 2002, the REIT has adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") related to stock based compensation. The standards encourage the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of units, unit appreciation rights, and awards that call for settlement in cash or other assets. The REIT records compensation expense for all unit-based compensation awards using the fair value method and is applying this accounting policy to all awards subsequent to January 1, 2002 in accordance with the CICA's recommendations. Any consideration paid by employees or Trustees on the exercise of Options or the purchase of Units is credited to Unitholders' Equity. If Units or Unit Options are repurchased from employees or Trustees, the excess of the consideration paid over the carrying amount of the Unit or Unit Option cancelled is charged to Unitholders' Equity.

3. INITIAL PUBLIC OFFERING

Asset acquisition

On December 20, 2001, the REIT completed an Initial Public Offering ("IPO"). The REIT acquired from PRF Holdings Inc. ("PRF") a 71.9% economic interest (49% equity interest) in IPC Realty Limited ("IPC Canada"), a company which through IPC (US), Inc. ("IPC US") and its subsidiaries owns a 3.4 million square foot portfolio of 17 office buildings and complexes and six retail centers throughout the United States (the "Initial Properties"). The remaining interest in IPC Canada is held by PRF.

The net proceeds from the IPO of approximately \$91.2 million were used by the REIT to acquire the 71.9% economic interest in IPC US through (i) the purchase of the common shares of IPC Canada from PRF for \$17.25 million and (ii) the advance of a \$73.95 million loan to IPC US.

Initial Properties	\$ 341,654
Cash	11,129
Restricted cash	9,053
Future income tax asset	13,303
Working capital	(5,246)
Future income tax liability	(18,168)
Long-term debt	(220,317)
	131,408
Non-controlling interest	(40,208)
	\$ 91,200

Consideration given by the REIT consisted of cash in the amount of \$91.2 million.

4. RENTAL PROPERTIES

		December 31, 2002		December 31, 2001
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	\$ 48,030	\$ / —	\$ 48,030	\$ 34,165
Buildings	397,707	2,921	394,786	268,806
Leasehold properties	38,736	330	38,406	38,162
Leasing costs	3,339	326	3,013	947
	\$ 487,812	\$ 3,577	\$ 484,235	\$ 342,080

Building improvements and leasing costs related to pre-REIT commitments

Included in rental properties is an amount for which cash remained in IPC US at closing to fund budgeted capital improvements and committed leasing costs. Expenditures of \$1,453,000 (2001 – nil) related to these items. Approximately \$500,000 of cash remains on deposit for the remainder of capital expenditures and leasing costs identified at the time of the IPO.

5. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2002	December 31, 2001
Prepaid expenses and other	\$ 1,734	\$ 873
Deferred financing costs	1,096	—
Other assets	696	424
	3,526	1,297
Accumulated depreciation and amortization	(558)	—
	\$ 2,968	\$ 1,297

6. LONG-TERM FIXED-RATE DEBT

	December 31, 2002	December 31, 2001
Fixed-rate debt	\$ 310,965	\$ 220,317

Approximately \$200 million of the fixed-rate debt is due June 2028 (anticipated repayment date June 2008) and \$17 million is due October 2030 (anticipated repayment date October 2010). If not fully repaid on the anticipated repayment date, the interest rate will increase by 2%. In addition, three new mortgages were incurred during the year to finance new acquisitions totaling \$93.7 million maturing in 2009 and 2012 and have interest rates of 6.38%, 6.43% and 8.31%. The weighted average interest rate on the fixed rate debt is 7.1% (2001 – 7.2%).

Anticipated Repayment Date	Weighted- Average Interest Rate	Balance
June 2008	7.20%	\$ 200,605
December 2009	8.31%	16,635
October 2010	8.31%	16,983
August 2012	6.41%	76,742
	7.12%	\$ 310,965

Principal repayments are:

2003	\$	3,904
2004		4,131
2005		4,503
2006		4,839
2007		5,200
Thereafter		288,388
	\$	310,965

The fair value of long-term fixed-rate debt at December 31, 2002 and December 31, 2001 approximates the carrying value. The individual mortgages are secured by certain restricted deposits, individual properties representing substantially all the real estate, and assignments of all leases.

7. LONG-TERM ACQUISITION FACILITY

The REIT has a \$50 million revolving facility with a U.S. bank for acquisitions and working capital purposes. The facility is due January 25, 2004 with two 12-month extension options. Interest under this facility is based on the bank's prime rate or LIBOR plus a range of 1.75 – 3.5%. Security for this facility is a pledge of 49% equity interest in the REIT's U.S. real estate.

8. INCOME TAXES

(a) The REIT is an open-end real estate investment trust, governed by the laws of the Province of Ontario. The REIT is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustees of the REIT will make distributions or designate all taxable income earned by the REIT to unitholders and will deduct such distributions and designations for income tax purposes.

(b) Canadian based corporate subsidiaries are subject to tax on their taxable income under the Income Tax Act (Canada) at rates between 39% and 42%. The REIT's U.S. subsidiaries are subject to tax on their consolidated taxable income at a rate of 40%.

(c) At December 31, 2002, the subsidiaries of the REIT had accumulated non-capital losses available for carryforward for income tax purposes of \$31,407,000. These losses expire between 2018 and 2022. The benefit relating to all of the losses has been recognized in the consolidated financial statements as a future income tax asset.

The provision for income taxes is summarized as follows:

	For the year ended December 31, 2002	For the period from December 20, 2001 to December 31, 2001
Income before income taxes and non-controlling interest	\$ 15,446	\$ 289
Income tax rate based on basic and weighted average rates	38.6%	40.6%
Income tax expense from statutory income tax rate	\$ 5,965	\$ 117
Increase (decrease) in taxes resulting from:		
Tax effect of foreign rate differences	230	–
U.S. operations	(2,159)	–
Other	216	(99)
Future income tax expense	4,252	18
Current income tax	–	–
Income tax expense	\$ 4,252	\$ 18

The balance of the future income tax asset arises from the following:

	December 31, 2002	December 31, 2001
Benefit from non-capital losses	\$ 12,845	\$ 10,283

The balance of the future income tax liability arises from the following:

	December 31, 2002	December 31, 2001
Rental properties	\$ 22,807	\$ 17,697
Long-term debt	914	(1,085)
Other	(1,759)	(1,464)
	\$ 21,962	\$ 15,148

9. RELATED PARTY TRANSACTIONS

PRF lease arrangements

Pursuant to agreements entered into on closing of the IPO, PRF through a wholly-owned subsidiary, effectively leased 97,864 square feet of vacant space commencing January 1, 2002 and agreed to lease 113,868 square feet of space with leases expiring in 2002 and is responsible for related tenant inducements and leasing costs. At December 31, 2002, 211,732 square feet was leased by PRF. The total rent recorded by the REIT in 2002 under the PRF lease agreements was \$1,761,000 (2001 – nil), net of subleases.

Service agreement

Pursuant to the Services Agreement (“RIDC Services Agreement”), the REIT through IPC Realty Services Inc. (“IPC Services”), a wholly-owned subsidiary, provides general management, administrative and support services to International Properties Corporation (“IPC Corp”), formerly Reichmann International Developments Corporation, a company associated with the non-controlling interest. As consideration for the services provided during the first two years of the term of the RIDC Services Agreement, IPC Services receives an annual fee from IPC Corp consisting of its direct and indirect costs plus a mark-up of 5% less \$300,000. Commencing in 2004, the fee payable by IPC Corp to IPC Services will be established bi-annually by negotiation between the parties and will be based on commercially arm’s-length terms for similar services with any disagreement to be resolved by binding arbitration. The RIDC Services Agreement has an initial term of five years and will be renewed automatically for one-year terms unless either party notifies the other 90 days prior to the expiration of the then current term of its determination not to renew such agreement.

The REIT received \$1,404,000 (2001 – \$23,000) during the year for providing management services. This amount is recorded in general and administrative expense as a recovery of costs.

Included in accounts receivable is \$33,000 due from IPC Corp (2001 – \$1,489,000 due to related parties included in accounts payable). The amounts are non-interest bearing.

Management advisory agreement

Under the terms of the Management Advisory Agreement, IPC Corp provides advisory services to the REIT with respect to: identifying property investment opportunities which meet the investment guidelines set out in the Declaration of Trust; providing the Trustees and the Investment Committee with information; and advice relating to proposed acquisitions and dispositions of properties as well as supervising due diligence conducted in connection with the proposed acquisition of properties.

During the first two years of the term of the Management Advisory Agreement, IPC Corp is entitled to a fee for such services in an amount equal to 0.50% of the gross acquisition cost of any new properties acquired by the REIT and an amount equal to 0.25% of the gross proceeds of disposition of any properties disposed of by the REIT. In 2004, the fees payable by the REIT to IPC Corp thereunder will be established bi-annually by negotiation between the Independent Trustees and IPC Corp and will be based on commercially arm’s-length terms for similar services, with any disagreement to be resolved by binding arbitration.

In consideration of its fee for services performed in connection with the REIT’s acquisition of the three properties in 2002, IPC Corp was paid fees of \$657,000 in the aggregate which are recorded as part of the cost of the real property.

10. GENERAL AND ADMINISTRATIVE EXPENSE

	December 31, 2002	December 31, 2001
Trust expenses	\$ 800	\$ 15
U.S. head office general and administrative	646	28
	\$ 1,446	\$ 43

11. UNITHOLDERS' EQUITY

Units issued and outstanding

The interests in the REIT are represented by a single class of Units which are unlimited in number. Each Unit entitles the holder to a single vote and carries the right to participate in all distributions.

The number of units issued and outstanding is as follows:

	Units	Amount
Balance at December 20 and 31, 2001	15,500,000	\$ 99,200
Issued on over-allotment	1,145,000	7,328
Issued on equity offering	2,500,000	16,125
Issued for reinvested distributions	64,852	417
Balance at December 31, 2002	19,209,852	\$ 123,070

(a) On December 20, 2001, the REIT completed its initial public offering of 15,500,000 units at US\$6.40 (Cdn\$10.00) to raise gross proceeds of \$99,200,000.

(b) On January 14, 2002, the REIT issued 1,145,000 units for gross proceeds of \$7,328,000 pursuant to the over-allotment option in the IPO. \$3,961,000 of the 2008 Debentures were repaid from the proceeds and as a result, the REIT's economic interest in IPC Canada increased to 75%.

(c) On December 30, 2002, the REIT completed an equity offering of 2,500,000 units at US\$6.45 (Cdn\$10.00) to raise gross proceeds of \$16,125,000.

(d) Unit Option Plan

On December 20, 2001, the REIT adopted a Unit Option Plan, which is subject to the rules of The Toronto Stock Exchange. The total number of Units in respect of which options may be granted under the Plan may not exceed 1,550,000 Units. The Unit Option Plan provides that at no time shall the number of Units reserved for issuance under the Plan exceed 10% of the then outstanding Units. Options are granted at an exercise price of no less than the market price at the time of the grant and have a maximum term of ten years. 1,195,250 options vesting over a one- to five-year period were outstanding as of December 31, 2002. No options were exercised during the year.

Effective January 1, 2002, the CICA instituted "stock-based" compensation and other stock-based payments which is applicable to all unit options issued after January 1, 2002. The following activity occurred during the year:

Exercise Price	Outstanding at December 31, 2001	Unit Options Granted	Unit Options Cancelled	Outstanding at December 31, 2002
\$6.40	930,000	—	12,000	918,000
\$7.10	—	30,000	—	30,000
\$6.54	—	247,250	—	247,250
	930,000	277,250	12,000	1,195,250

The weighted average grant-date fair value of Unit Options granted in 2002 has been estimated at \$0.50 per unit using a modified Black-Scholes valuation model for pricing options. The following assumptions were used: expected distribution yield 10.0% per annum, expected unit price volatility of 20% and expected life of ten years.

Special Warrants

On November 1, 2002, a private placement of 2,971,112 special warrants (subject to adjustment) was completed. The special warrants were issued at prices of US\$6.75 and Cdn\$10.55 for total proceeds of US\$20,055,006 before deducting fees and expenses of the offering. Holders of these special warrants received \$496,000 in return of capital while they were issued and outstanding. On January 31, 2003, these warrants were converted into 3,172,758 units of the REIT.

12. NON-CONTROLLING INTEREST

	December 31, 2002	December 31, 2001
Non-controlling interest in IPC US	\$ 44,655	\$ 40,221
Non-controlling interest in 1650 Arch Street Partnership	2,898	—
	\$ 47,553	\$ 40,221

Non-controlling interest in IPC US is partially represented by debentures due in 2008 held by entities under common ownership with IPC Corp ("2008 Debentures") in the amount of \$23.94 million (2001 – \$28.75 million) bearing interest at 10% per annum, payable monthly. The remaining balance represents the 51% equity interest in IPC Realty Limited. The total non-controlling interest in IPC US represents approximately 23% (2001 – 28.1%) economic interest in the underlying properties of the REIT. The portion of income allocated to non-controlling interest is calculated at approximately 24.6% (2001 – 28.1%), the weighted average during the year of net income after adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense and consistent with the calculation of Distributable Income.

Non-controlling interest also includes an 11% minority partner in the 1650 Arch Street property.

13. COMMITMENTS AND CONTINGENCIES

Tenant inducements

The REIT has committed \$456,900 in tenant inducements as at December 31, 2002.

Ground leases

The following is a schedule of future minimum rental payments and renewals under three non-cancellable operating ground leases (excluding renewal options), which are accounted for as operating leases, that expire at various dates from 2063 to 2083, taking into account renewal options in favour of the REIT.

2003	\$ 432
2004	483
2005	483
2006	483
2007	483
Thereafter	5,580
Total	\$ 7,944

Lease expense for the year was approximately \$430,000 (2001 – \$9,200).

Contingencies

The REIT's subsidiaries are involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the REIT.

14. NET INCOME PER UNIT CALCULATIONS

Basic net income per unit is calculated based on a weighted average of 16,627,763 units (2001 – 15,500,000). The number of units does not include the special warrants raised as described in Note 11.

Diluted net income per unit is calculated based on a weighted average of 16,677,101 units (2001 – 15,511,481), which reflects the potential exercise of 1,165,250 (2001 – 930,000) outstanding options as the exercise price of these options was less than the average market price of the units during the period and the exercise of the 2,971,112 special warrants into 3,172,758 units.

15. DISTRIBUTIONS TO UNITHOLDERS

Distributions to unitholders are computed based on distributable income as defined by the Declaration of Trust. Distributable income is not a GAAP measure and there is no standardized measure of distributable income. Distributable income, as presented, may not be comparable to similar measures presented by other real estate investment trusts.

Distributable income, as defined in the Declaration of Trust, is calculated as net income, as determined in accordance with Canadian generally accepted accounting principles, including adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense and excluding any gains or losses on the disposition of any asset, future income tax benefit, and any other adjustments determined by a majority of the Trustees in their discretion.

	For the year ended December 31, 2002	For the period from December 20, 2001 to December 31, 2001
Net income	\$ 6,450	\$ 163
Add:		
Depreciation and amortization ⁽²⁾	3,711	97
Future income tax expense	4,252	18
Distributable income	14,413	278
Retained amount	3,487	278
Distributed to Unitholders ⁽¹⁾	\$ 10,926	\$ -

(1) Distributions include \$332,900 relating to the 12-day period ended December 31, 2001.

(2) Excludes amortization of leasing costs.

	For the year ended December 31, 2002		For the period from December 20, 2001 to December 31, 2001	
	Units	Amount	Units	Amount
Distributable income per Unit				
– Basic	16,627,763	\$ 0.87	15,500,000	\$ 0.02
Distributable income per Unit				
– Diluted	16,677,101	\$ 0.86	15,511,481	\$ 0.02

Basic distributable income per unit is calculated based on a weighted average of 16,627,763 units (2001 – 15,500,000). The number of units does not include the special warrants raised as described in Note 11.

Diluted distributable income per unit is calculated based on a weighted average of 16,677,101 units (2001 – 15,511,481), which reflects the potential exercise of 1,165,250 (2001 – 930,000) outstanding options as the issue price of these options was less than the average market price of the units during the period and the exercise of the 2,971,112 special warrants into 3,172,758 units.

16. SEGMENTED FINANCIAL INFORMATION

The REIT's operations cover both office and retail types of real estate properties. The following summaries present segmented financial information for these property types:

	As at, and for the year ended December 31, 2002	As at, and for the period from December 20, 2001 to December 31, 2001
Office		
Rental properties revenue	\$ 55,509	\$ 1,288
Rental properties operating costs	22,769	558
Depreciation and amortization	3,210	80
Total assets	410,652	258,292
Retail		
Rental properties revenue	11,222	349
Rental properties operating costs	3,247	139
Depreciation and amortization	965	25
Total assets	98,432	97,649
Head Office		
Depreciation and amortization	353	—
Future income tax asset	12,845	10,283
Other assets	7,949	8,097
Total		
Rental properties revenue	66,731	1,637
Rental properties operating costs	26,016	697
Depreciation and amortization	4,528	105
Total assets	529,878	374,958

17. RISK MANAGEMENT AND FAIR VALUES

(a) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulties and be unable to fulfill their lease commitments. The REIT mitigates the risk of credit loss by reviewing each prospective tenant's credit history before signing new leases and conducting regular reviews of its existing tenants' credit performance.

(b) Interest rate risk

The REIT's exposure to interest rate risk relates to its long-term debt which bears fixed rates until 2008, 2009, 2010 and 2012.

(c) Fair value of financial instruments

The fair values of the majority of the REIT's financial assets and liabilities, representing net working capital, approximate their recorded values due to their short-term nature, except for the fair values of other long-term debt as reflected under Note 6.

18. SUBSEQUENT EVENTS

In January, 2003, the REIT issued 330,000 units for \$2,128,500 pursuant to the over-allotment option in the equity offering completed in December 2002.

In March, 2003, the REIT, through IPC US acquired an 80% partnership interest in 11 Stanwix Street, a 429,000 square foot, 23-storey, Class A office building in Pittsburgh, Pennsylvania. The purchase price for the property (100%) of \$40 million and was financed by the assumption of a \$31.1 million fixed-rate mortgage at 7.99% maturing in 2011. The REIT's investment was funded by its long-term acquisition facility.

19. COMPARATIVE FIGURES

Certain of the prior period's comparatives have been reclassified to conform to the current year's presentation.

Corporate and Other Information

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PLAN ELIGIBILITY

RRSP, RRIF, DPSP

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Fleet National Bank, Boston, MA

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STOCK EXCHANGE LISTING

Toronto Stock Exchange

STOCK TRADING SYMBOL

IUR.UN (Canadian dollar Units)
IUR.U (U.S. dollar Units)

TRUSTEES AND SENIOR MANAGEMENT

Trustees

The Hon. Donald S. Macdonald, Chairman
Mr. Jack Bistricher
Mr. Aladin Mawani
Mr. Barry Reichmann
Mr. Paul Reichmann
Mr. Derek Watchorn
Mr. Michael Young

Senior Management

Mr. Vinay Kapoor, President and Chief Executive Officer
Mr. Gary M. Goodman, Executive Vice President
and Chief Financial Officer
Ms. Elisabeth S. Wigmore, Chief Operating Officer
Mr. Y. Dov Meyer, Chief Investment Officer

DISTRIBUTION REINVESTMENT PLAN (THE "PLAN")

The REIT's Unitholders, who hold Units of record through a broker or other investment dealer recognized by The Canadian Depository for Securities Limited will be able to conveniently and economically increase their holdings in the REIT by taking advantage of the Plan. Monthly distributions are automatically reinvested in additional REIT Units without payment of brokerage commissions.

Participants in the Plan acquire additional units of the REIT, based on the weighted average closing price for the five trading days immediately preceding the relevant distribution date. For each \$1.00 reinvested, participants receive \$1.03 of new Units. The Plan is available to Canadian residents only. Please contact your broker for enrolment information.

DISTRIBUTION DATES

Record Date—last business day of each month.
Payment Date—approximately 15th of the following month.

TAX DEFERRED⁽¹⁾

Year to December 31, 2002 80.2%

⁽¹⁾ Non-resident US Unitholders are subject to a 15% withholding tax on the taxable portion of the Distribution.

ANNUAL UNITHOLDERS' MEETING

Thursday, June 19, 2003
11:00 a.m. EST
Hilton Toronto Hotel
Casson Room
145 Richmond Street West
Toronto, Ontario

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COMMERCIAL REIT

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